Pine Cliff Energy Ltd.

2005 ANNUAL REPORT

Pine Cliff Energy Ltd. *(TSX Venture symbol – PNE) is a junior energy company that explores for, develops and produces oil and natural gas primarily in the Western Sedimentary Basin in Canada and in the future will also assess and evaluate international opportunities.*

The Company's business strategy is to strive to maximize shareholders value by applying long-term growth objectives. The Company's primary objective is to combine its oil and gas production technical strengths with planned business strategies to generate above average results and returns for its shareholders.

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held on Wednesday, May 24, 2006, in the Nakiska Room at the Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta, at 9:00 a.m. (Calgary time).

Forward-Looking Information

Certain information set forth in this document, including management's assessment of Pine Cliff Energy Ltd.'s ("the Company" or "Pine Cliff") future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Pine Cliff's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Pine Cliff's actual results, performance or achievement could differ materially from those expressed in, or implied by these forward-looking statements, and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Pine Cliff will derive therefrom. Pine Cliff disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned that net present value of reserves does not represent fair market value of reserves.

Pine Cliff Energy Ltd.

		2005[1]
Financial Highlights		
Revenue – oil and gas	$	633,873
Funds flow from Operations[2]	$	368,259
Per Share Basic	$	0.01
Per Share Fully Diluted	$	0.01
Net Loss	$	329,062
Per Share Basic	$	(0.01)
Per Share Fully Diluted	$	(0.01)
Capital Expenditures and Acquisitions	$	2,097,930
Shareholders' Equity	$	5,110,407
Shares Outstanding (000's)(December 31, 2005)		36,420,041
Operations		
Oil and Liquids (barrels per day)		7
Average Price ($ per barrel)	$	62.42
Natural Gas (MCF per day)		175
Average Price ($ per MCF)	$	10.78
Total Barrels per Day (BOE per day)[3]		36
Reserves[4]		
Oil and Liquids (barrels)		
Proved Developed Producing (Gross)		13,300
Proved plus Probable (Gross)		21,400
Natural Gas (MCF)		
Proved Developed Producing (Gross)		352,000
Proved plus Probable (Gross)		568,000
Share Trading Statistics		
Share Prices (based on daily closing price)		
High	$	0.61
Low	$	0.42
Close	$	0.55
Daily Average Trading Volume		7,535

(1) Operations commenced April 8, 2005

(2) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to net earnings, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Company's performance. The Company's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Company defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items.

(3) BOE's are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

(4) Gross reserves relate to the Company's ownership of reserves before royalty interests.

Report to Shareholders

Pine Cliff Energy Ltd. ("Pine Cliff" or the "Company") is pleased to report its operational and financial results for 2005. It is the Company's first annual report as Pine Cliff commenced its activities in April 2005.

During its short history the Company has mainly been focusing on:

- Drilling and evaluating its interests in the Sundance property located in west central Alberta.
- Researching and evaluating prospective oil and gas properties located in the Western Canadian Sedimentary Basin.
- Researching and evaluating investment opportunities in South America.

The Company is now in a position, whereby, it will be proceeding with acquisitions and farm-ins in these areas of interest.

Financial

Revenue from petroleum and natural gas sales for the year was $633,873. The fourth quarter sales figure was $372,315 accounting for 58.7 percent of the 2005 total figure. The Company experienced a loss in 2005 which is totally attributable to an asset write down of $588,256 in the fourth quarter for its Auburndale property. Pine Cliff's working capital at December 31, 2005 was $3,565,689. This working capital and the Company's 2006 cash flow should be sufficient to finance the capital expenditures for 2006.

Operations and Outlook

The Company's future operating philosophy will be to conduct exploration and development programs in Canada and internationally that are rated as low risk ventures, but will also proceed with activities in both areas that are in higher risk and potentially higher return categories. At the present time most of Pine Cliff's activities are being managed by a consulting contract with its former parent, Bonterra Energy Income Trust. Pine Cliff is presently in the process of hiring people to perform most of its technical requirements. The Company is optimistic with regard to the properties it will be exploring and developing in 2006.

The Board of Directors wish to thank the shareholders for their initial investment and advice and the staff for their contributions in setting up the Company.

Submitted on behalf of the Board of Directors,

George F. Fink
President, CEO and Director

Review of Operations

Reserves

The Company engaged the services of Sproule Associates Limited to prepare a reserve evaluation with an effective date of December 31, 2005. The reserves are located in the Province of Alberta. The majority of the Company's production is comprised of natural gas. The Company's main gas producing area is located in the Sundance area of West Central Alberta. The gross reserve figure in the following charts represents the Company's ownership interest before royalties and the net figure is after deductions for royalties.

SUMMARY OF OIL AND GAS RESERVES AS OF DECEMBER 31, 2005

(Forecast Prices and Costs)

	Reserves			
	Natural Gas		Natural Gas Liquids	
Reserve Category	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved				
Developed producing	352	283	13.3	9.0
Total proved	352	283	13.3	9.0
Probable	216	167	8.1	5.6
Total proved plus probable	568	450	21.4	14.6

Reconciliation of Company Gross Reserves by Principal Product

(Forecast Prices and Costs)

	Natural Gas		
	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved Plus Probable (MMcf)
December 31, 2004	-	-	-
Extension	288	100	388
Improved recovery	-	58	58
Technical revisions	32	(24)	8
Discoveries	-	-	-
Acquisitions	52	82	134
Economic factors	-	-	-
Production	(20)	-	(20)
December 31, 2005	352	216	568

Summary of Net Present Values of Future Net Revenue as of December 31, 2005

(Forecast Prices and Costs)

	Net Present Value of Future Net Revenue After Income Taxes Discounted at (%/year)				
Reserve Category (M$)	0	5	10	15	20
Proved					
Developed Producing	2,686	2,460	2,277	2,126	1,999
Total Proved	2,686	2,460	2,277	2,126	1,999
Probable	1,132	902	745	633	549
Total Proved Plus Probable	3,818	3,362	3,022	2,759	2,548

Year	Edmonton Par Price (Cdn $ per barrel)	Alberta Gas Reference Price Plantgate (Cdn $ per MCF)	Propane (Cdn $ per barrel)	Butane (Cdn $ per barrel)	Pentane (Cdn $ per barrel)
2006	70.07	11.37	39.25	47.01	71.77
2007	70.99	10.63	39.76	47.62	72.71
2008	62.73	8.76	35.14	42.08	64.25
2009	57.53	7.69	32.22	38.59	58.92
2010	54.65	7.39	30.61	36.66	55.97
2011	55.47	7.52	31.07	37.21	56.81
2012	56.31	7.63	31.54	37.77	57.67
2013	57.16	7.77	32.01	38.34	58.54
2014	58.02	7.90	32.50	38.92	59.42
2015	58.89	8.04	32.99	39.51	60.31
2016	59.78	8.18	33.48	40.10	61.22

Natural gas and liquid prices escalate at various rates thereafter

The following cautionary statements are specifically required by NI 51-101.

- It should not be assumed that the estimates of future net revenue presented in the above tables represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.
- Disclosure provided herein in respect of BOE's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a BOE conversion ratio of 6mcf:1bbl has been used in all cases in this disclosure. This BOE conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- Estimates of reserves and future net revenues for individual properties may not reflect the same confidence level as estimates of reserves and future net revenues for all properties due to the effects of aggregation.

Land Holdings

The Company's holdings of natural gas leases and rights as of December 31, 2005 are as follows:

	Gross Acres	Net Acres
Alberta	7,680	2,844

Petroleum and Natural Gas Capital Expenditures

The following table summarizes petroleum and natural gas capital expenditures incurred by the Company on acquisitions, land, seismic, exploration and development drilling and production facilities for the year ended December 31, 2005.

Exploration and development costs	$1,089,632
Acquisitions	999,701
Land costs	5,490
Seismic	2,433
Net petroleum and natural gas capital expenditures	$2,097,256

Drilling History

The following table summarizes the Company's 2005 gross and net drilling activity and success:

	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Natural Gas	2	0.2	-	-	2	0.2
Dry	-	-	1	1.0	1	1.0
Total	2	0.2	1	1.0	3	1.2
Success rate	100%	100%	0%	0%	67%	16.7%

Property Discussions

Pine Cliff's producing property is located in the Sundance area of West Central Alberta. The Company has a 13.2% average working interest in 4,320 acres (572 net) of Crown land in the area. There were initially two producing wells (0.308 net) on the lands when they were acquired.

Since the acquisition three more wells (0.226 net) were drilled on the lands with all three wells being productive for a 100% success rate. Two of the new drills (0.188 net) are on production and the third well (0.038) is completed and on production in early February 2006. The wells produce from multiple zones from the Cadomin to the Belly River. Current production from the four wells is approximately 3,150 Mcf/day gross, 365 Mcf/day net to Pine Cliff. NGL's are produced in association with the natural gas.

There is still significant industry activity in the Sundance area. With the success of last years drilling program the interests in non producing properties are being analyzed to determine whether there are additional prospective drilling locations.

Pine Cliff drilled a 100% Devonian well for sweet natural gas in the Auburndale area of East Central Alberta in 2005. Gas was encountered but production rates were not sufficient enough to justify the cost of tieing in the well at this time due to lack of nearby infrastructure. The company is continuing to evaluate the potential of this play.

Management's Discussion and Analysis

The following report dated March 17, 2006 is a review of the operations, current financial position and outlook for the Company and should be read in conjunction with the audited financial statement for the period ended December 31, 2005, including the notes related thereto.

General

The Company is continuing to focus on expanding its operations in the following areas:

(a) Assessing various opportunities to purchase producing properties with exploitation potential and non producing properties.

(b) Assessing international opportunities in various countries that provide sound technical prospects and are not high risk from a political and personal safety aspect.

(c) Continuing to add technical people to assist in developing prospects domestically and on an international basis.

A lot of progress has been made in these areas during the past few months and the Company is optimistic with regard to the potential in these areas of focus.

Officers Certification of Evaluation of Disclosure Controls

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005 and have concluded that such disclosure controls were effective to provide reasonable assurance that material information relating to the Company is made known to them.

Financial and Operational

The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations on April 8, 2005. The Company did not have operations as of December 31, 2004 and therefore is only presenting quarterly statements for the year ended December 31, 2005. The Company had no income or expenditures to be recognized in an income statement and had no cash transactions to December 31, 2004.

Quarterly Financial and Operational Highlights

	2005 4th	3rd	2nd	1st
Revenue - oil and gas	$ 372,315	$ 121,141	$ 140,417	$ -
Funds Flow from Operations (1)	275,942	68,119	48,374	(24,176)
Per Share Basic	0.01	0.00	0.00	(0.00)
Per Share Diluted	0.01	0.00	0.00	(0.00)
Net (Loss) Earnings	(223,241)	(37,092)	(44,553)	(24,176)
Per Share Basic	(0.01)	(0.00)	(0.00)	(0.00)
Per Share Diluted	(0.01)	(0.00)	(0.00)	(0.00)
Capital Expenditures and Acquisitions	160,809	321,206	1,615,915	-
Total Assets	5,267,988	5,609,386	5,481,085	192,458
Working Capital (Deficiency)	3,565,689	3,450,555	3,513,801	(185,983)
Shareholder's Equity	5,110,407	5,305,042	5,308,028	(24,175)
Operations				
Oil and Liquids (barrels per day)	8	4	6	-
Natural Gas (MCF per day)	279	116	153	-

(1) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to net earnings, funds flow from operations is a useful supplemental measure as it demonstrates the Company's ability to generate the cash necessary to fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Company's performance. The Company's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Company defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items.

Production

On April 8, 2005, with an effective date of January 1, 2005, the Company acquired interests in two natural gas properties for $999,701. The Sundance land, located in West Central Alberta was the major property acquired. Pine Cliff now has a 13.2 percent working interest (subject to crown royalty) in 4,320 acres in this area. There are two wells (0.308 net) on these lands that have been producing for approximately two years. Two additional multi-zone wells were drilled in 2005 (net .2). Production commenced in April at one location (net .038) and in October for the other location (net .15). In 2005 production from this area averaged 175 MCF of natural gas and seven barrels of natural gas liquids per day. In December 2005 daily production rates from the Sundance property was 349 Mcf and 10 barrels of natural gas liquids.

Pine Cliff also acquired a 100 percent interest in a 256 hectare Crown lease in the Auburndale area of East Central Alberta. The Company drilled a Devonian well for sweet natural gas during the second quarter. The Company has tested this well and has concluded that the projected production volume is not sufficient to construct a five kilometer pipeline to tie it in. The drilling and land costs have been written off in 2005 (see Write-down of Asset).

Revenue

Revenue from petroleum and natural gas sales for the year was $633,873. This includes $372,315 for the fourth quarter. This is an increase of $251,174 from the third quarter. The increase was due to higher commodity prices and commencement of production in October from the new Sundance well. As previously mentioned the Company commenced its oil and gas operations on April 8. Average price received in 2005 for its natural gas was $10.78 per MCF and $62.42 per barrel for natural gas liquids. The Company did not have hedging agreements in 2005 and presently does not have any future hedging agreements.

Royalties

Royalties consist of Crown royalties ($17,464) paid to the Province of Alberta and gross overriding royalties ($21,366). The Company receives a partial rebate (currently 25%) from royalties paid to the Province of Alberta. The Company received a royalty holiday on a portion of its new production. An adjustment for the royalty holiday was recorded in the fourth quarter resulting in a reduction of previously reported Crown royalties and a corresponding reduction in royalty rebate.

Interest Income

The Company maintains an investment account with its principal banker that pays interest at prime less 2.25 percent as long as the Company maintains a minimum balance of $1,500,000.

Production Costs

Production costs for the year ended December 31, 2005 were $53,449 or $5.41 per BOE (Q4 – $4.37 per BOE, Q3 – $9.51 per BOE and Q2 - $7.37 per BOE). BOE's are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation. Lower production costs from the natural gas well that commenced production in the fourth quarter was the main reason for the decline in costs per BOE from Q3.

General and Administrative

Pine Cliff does not have any employees at the present time but has engaged the services of a geologist on a consulting basis during the third quarter of 2005. Effective February 1, 2005, Pine Cliff entered into a management agreement with Comstate Resources Ltd. ("Comstate"), a wholly owned subsidiary of Bonterra Energy Income Trust and a company with common directors and management, to have Comstate provide executive services (President and CEO, CFO and COO), accounting services, oil and gas administration and office administration. The management fee consists of a monthly fee of $12,000 ($18,000 effective January 1, 2006), three percent of net earnings before income taxes, plus out of pocket costs. Total fees for the year ended December 31, 2005 were $132,000 plus minimal out of pocket costs. The majority of the remaining general and administrative expenses consist of $44,160 for geological consulting, accounting and legal costs of $19,453 associated with continuous disclosure requirements and general start up costs of $16,458.

Stock Based Compensation

The Company has a stock-based compensation plan. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. In the second quarter the Company issued 1,732,000 stock options with the fair value estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.5 percent, expected weighted average volatility of 88 percent, expected weighted average life of 3.5 years and no annual dividend rate. The total expense to be amortized over the vesting period of the options is $136,536 of which $29,049 (Q3 - $29,806, Q2 - $28,186) was expensed in the fourth quarter.

Write-down of Asset

As previously discussed, the Company drilled a Devonian gas well in the second quarter of 2005. The well, although capable of production, does not contain sufficient reserves to warrant a five kilometer pipeline. Given the lack of current economics for this well, no proved or probable reserves were assigned to the well in the preparation of the third party engineering report. With the Company following the successful efforts method of accounting (see below), capital costs associated with each field that are in excess of that fields economic value are to be written off. As such the Company wrote off $588,256 in respect of the cost of the land and development costs incurred in drilling the Devonian well.

Depletion, Depreciation and Amortization

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

Provisions are made for asset retirement obligations through the recognition of the fair value of obligations associated with the retirement of tangible long-life assets being recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

At December 31, 2005, the estimated total undiscounted amount required to settle the asset retirement obligations was $42,796. These obligations will be settled based on the useful lives of the underlying assets, which extend up to eight years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of five percent. The discount rate is reviewed annually and adjusted if considered necessary. A change in the rate would not have a significant impact on the amount recorded for asset retirement obligations.

The calculation of the above requires an estimation of the amount of the Company's petroleum reserves by field. This figure is calculated annually by an independent engineering firm and any adjustments are used to recalculate depletion and asset retirement obligations. This calculation is to a large extent subjective. Reserve adjustments are affected by economic assumptions as well as estimates of petroleum products in place and methods of recovering those reserves. To the extent reserves are increased or decreased, depletion costs will vary. The result of the independent engineering firm reserve evaluation was a substantial increase to managements determined reserve estimates. As a result fourth quarter depletion was only a nominal amount of $12,795 to adjust for the reserve increase.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences in the accounts calculated using income tax rates expected to apply in the year in which the temporary differences will reverse. The Company has sufficient tax pools so it is not liable for current income tax in 2005. Should the Company not incur additional exploration and development expenditure in 2006, based on current pricing, the Company may be taxable in 2006.

The Company has the following tax pools which can be used to reduce future taxable income:

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 216,298
Canadian oil and gas expenditures	10	809,254
Canadian development expenditures	30	392,275
Canadian exploration expenditures	100	387,062
Share issue costs	20	134,118
		$ 1,939,007

Net Loss

Pine Cliff is in the start up phase and as such anticipates incurring a certain amount of losses during its first months of operations. The net loss in the fourth quarter of $223,241 (Q3 - $37,092, Q2 - $44,553, and Q1 - $24,176) was primarily due to the write-down of the Auburndale property ($588,256). Excluding the write-down, the Company had pre-tax profits of $234,540 in the fourth quarter. The Company is optimistic that current planned activity will result in improved results in the future.

Liquidity and Capital Resources

As of December 31, 2005, Pine Cliff had positive working capital of $3,565,689. These funds will be used to fund future development of existing properties and to acquire additional oil and gas properties. Subsequent to year-end, the Company incorporated a 93 percent owned subsidiary CanAmericas Energy Ltd. (CanAmericas) to carry on exploration and development work in South America. The Company funded CanAmericas with an equity injection of $1.4 million US.

The Company is authorized to issue an unlimited number of common shares without nominal or par value. Equity transactions during the past nine months are as follows:

	Shares	Amount
Balance, December 31, 2004	10	$ 1
Issued pursuant to public offering	36,420,031	5,463,005
Share issue costs	-	(167,647)
Future tax adjustment on share issue costs	-	57,069
Balance, December 31, 2005	36,420,041	$ 5,352,428

On April 7, 2005, the Company concluded its initial public offering of 36,420,031 Common Shares at $0.15 per share for gross proceeds of $5,463,005. Total expenses related to the initial public offering were $167,647. The Company granted 930,000 stock options to its directors and officers, and an additional 802,000 stock options to other service providers at an exercise price of $0.15 per share. The Company commenced trading on the TSX Venture Exchange on April 11, 2005.

A summary of the status of the Company's stock option plan as of December 31, 2005 and December 31, 2004, and changes during the twelve months and from incorporation periods ending on those dates is presented below:

	December 31, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	-	$0.00	-	$0.00
Options granted	1,752,000	0.16	-	0.00
Options cancelled	(66,000)	0.15	-	0.00
Outstanding at end of period	1,686,000	$0.16	-	$0.00
Options exercisable at end of period	-	$0.00	-	$0.00

Of the 1,686,000 options that are outstanding as of December 31, 2005, 1,666,000 are exercisable 50 percent on April 5, 2006 and the remaining 50 percent on April 5, 2007. The options all expire on January 31, 2010.

Sensitivity Analysis

Given the current start up status of the Company changes of $1.00 US per barrel in the price of crude oil, $0.10 per MCF in the price of natural gas, or a $0.01 change in the Cdn/US exchange rate would have no significant impact on the cash flow per unit amounts of the Company.

Additional information relating to the Company may be found on WWW.SEDAR.COM and by visiting its website at www.pinecliffenergy.com.

Submitted on behalf of the Board of Directors,

George F. Fink
President, CEO and Director

Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of the statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Deloitte & Touche LLP has been appointed by the shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditors' report. The audit committee has reviewed the financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented.

George F. Fink
President and CEO

Garth E. Schultz
Vice President, Finance and CFO

Auditors' Report

To the Shareholders of Pine Cliff Energy Ltd.:

We have audited the balance sheets of Pine Cliff Energy Ltd. as at December 31, 2005 and 2004 and the statements of loss and deficit and cash flow for the year ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004, and the results of its operations and cash flows for the year ended December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Alberta
March 17, 2006

Pine Cliff Energy Ltd.

Balance Sheets	2005	2004
As at December 31		
Assets		
Current		
Cash	$ 3,334,961	$ 1
Due from related party (Note 2)	16,006	–
Accounts receivable	339,330	–
Prepaid expenditures	3,460	–
	3,693,757	1
Deferred Charges (Note 3)	–	78,845
Future Income Tax Asset (Note 4)	216,254	–
Property and Equipment (Note 5)		
Property and equipment	1,538,809	–
Accumulated depletion and depreciation	(180,832)	–
	1,357,977	–
	$ 5,267,988	$ 78,846
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 127,903	$ 25,000
Due to related party (Note 2)	165	53,845
	128,068	78,845
Asset Retirement Obligations (Note 6)	29,513	–
Shareholders' Equity		
Share capital (Note 7)	5,352,428	1
Contributed surplus	87,041	–
Deficit	(329,062)	–
	5,110,407	1
	$ 5,267,988	$ 78,846

On Behalf of the Board:

George F. Fink
Director

F. William Woodward
Director

Pine Cliff Energy Ltd.

Statement of Loss and Deficit	2005
For the year ended December 31, 2005 (Note 1)	
Revenue	
Oil and gas sales	$ 633,873
Royalties	(38,830)
Alberta royalty tax credits	4,366
Interest income	61,715
	661,124
Expenses	
Production costs	53,449
General and administrative	239,417
Stock based compensation	87,041
Write-down of assets (Note 5)	588,256
Depletion, depreciation and accretion	181,208
	1,149,371
Loss Before Income Taxes	(488,247)
Income Taxes (Recovery)	
Current	–
Future	(159,185)
	(159,185)
Loss for the Year and Deficit End of Year	$ (329,062)
Loss Per Share – Basic	$ (0.01)
Loss Per Share – Diluted	$ (0.01)

Pine Cliff Energy Ltd.

Statement of Cash Flow		2005
For the year ended December 31, 2005 (Note 1)		
Operating Activities		
Net loss for the year	$	(329,062)
Items not affecting cash		
Stock based compensation		87,041
Write-down of assets		588,256
Depletion, depreciation and accretion		181,208
Future income taxes		(159,185)
		368,259
Change in non-cash working capital		
Due from related party		(16,006)
Accounts receivable		(339,329)
Prepaid expenditures		(3,460)
Accounts payable and accrued liabilities		127,903
Due to related party		165
		(230,727)
Cash Provided by Operating Activities		137,532
Financing Activities		
Proceeds received on initial public offering		5,463,005
Issue costs		(88,802)
Change in non-cash working capital		
Accounts payable and accrued liabilities		(25,000)
Due to related party (Note 2)		(53,845)
Cash Provided by Financing Activities		5,295,358
Investing Activities		
Property and equipment expenditures		(2,097,930)
Cash Used in Investing Activities		(2,097,930)
Net Cash Inflow		3,334,960
Cash, Beginning of Year		1
Cash, End of Year	$	3,334,961
Cash Interest Paid	$	–
Cash Taxes Paid	$	–

Notes to the Financial Statements

For the Periods Ended December 31 (Note 1)

1. SIGNIFICANT ACCOUNTING POLICIES

Commencement of Operations

The Company was incorporated in the Province of Alberta on November 10, 2004 and commenced operations on April 8, 2005.

Basis of Presentation

The Company had not commenced operations as of December 31, 2004 and therefore is only presenting a statement of loss and statement of cash flow for the year ended December 31, 2005. The Company had no income or expenditures to be recognized in an income statement and had no cash transactions to December 31, 2004.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and equipment and for asset retirement obligations are based on estimates of petroleum and natural gas reserves and future costs. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

Petroleum and Natural Gas Properties and Related Equipment

The Company follows the successful efforts method of accounting for petroleum and natural gas properties and related equipment. Costs of acquiring unproved properties are capitalized. These costs are assessed at least annually, and when circumstances change, for impairment. When petroleum and natural gas properties are found to contain proved reserves as determined by Company engineers, the related net book value is depleted on the unit-of-production basis, calculated by field. The costs of dry holes and abandoned properties are charged to operations. Geological costs, lease rentals and carrying costs are charged to income as incurred. Costs of drilling exploratory and development wells that result in additions to proved reserves are capitalized and depleted on the unit-of-production basis. Tangible equipment is depreciated on a straight-line basis over ten years.

Income Taxes

The Company follows the liability method of accounting for income taxes under which the income tax provision is based on the temporary differences between the amounts reported by the Company and their respective tax bases calculated using income tax rates expected to apply in the year in which the temporary differences will reverse.

Asset Retirement Obligations

The Company recognizes the fair value of obligations associated with the retirement of long-life assets in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

Stock-based Compensation

The Company has a stock-based compensation plan which is described in Note 7. The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. These amounts are recorded as contributed surplus. Any consideration paid by employees, directors or consultants on the exercise of these options is recorded as share capital together with the related contributed surplus associated with the excersised options.

Revenue Recognition

Petroleum and natural gas sales are recognized when the commodities are delivered and title transfers to the purchasers.

Joint Interest Operations

Significant portions of the Company's oil and gas operations are conducted with other parties and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

Loss Per Share

Basic loss per share is computed by dividing the loss by the weighted average number of shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options to purchase common shares were exercised. The treasury stock method is used to determine the dilutive effect of common share options, whereby proceeds from the exercise of common share options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the year.

The number of common shares used to calculate diluted loss per share for the year ended December 31, 2005 of 27,545,132 included the weighted average number of common shares outstanding of 26,641,512 plus 903,620 common shares related to the dilutive effect of common share options.

2. RELATED PARTY TRANSACTIONS

Bonterra Energy Income Trust ("Bonterra"), an organization with common directors and management and former parent of the Company, through its wholly owned subsidiaries Comstate Resources Ltd. ("Comstate"), Bonterra Energy Corp. ("Bonterra Corp.") and Novitas Energy Ltd. ("Novitas") has provided working capital, management services and has sold natural gas properties to the Company. Fees paid for management services totalled $132,000 for the year. As of December 31, 2005, the Company owed $165 (2004 - $53,845) to Bonterra and its wholly owned subsidiaries for these items. The Company has an accounts receivable from Novitas of $16,006 relating to post closing adjustments in relation to the natural gas properties acquired (see Note 5).

3. DEFERRED CHARGES

The Company incurred $78,845 of costs in 2004 in respect to its initial public offering. These costs were recorded as deferred charges and were charged to share capital when the public offering was completed in April 2005 (see Note 7).

4. INCOME TAXES

The Company has recorded a future income tax asset. The asset relates to the following temporary differences:

	2005
Temporary differences related property and equipment and asset retirement obligations	$ 168,749
Finance costs	47,505
	$ 216,254

Income tax expense differs from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

	2005
Loss before income taxes	$ (488,247)
Combined federal and provincial income tax rates	37.62%
Income tax provision calculated using statutory tax rates	(183,679)
Increase (decrease) in income taxes resulting from:	
Stock based compensation	32,745
Non-deductible crown royalties	4,667
Resource allowance	(19,059)
Other	6,141
	$ (159,185)

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

	Rate of Utilization %	Amount
Undepreciated capital costs	25	$ 216,298
Canadian oil and gas property expenditures	10	809,254
Canadian development expenditures	30	392,275
Canadian exploration expenditures	100	387,062
Share issue costs	20	134,118
		$ 1,939,007

5. PROPERTY AND EQUIPMENT

	2005	
	Cost	Accumulated Depletion and Depreciation
Undeveloped land	$ 5,490	$ –
Petroleum and natural gas properties and related equipment	1,533,319	180,832
	$ 1,538,809	$ 180,832

On April 8, 2005, the Company purchased its original properties from Bonterra (see Note 2) for approximately $1,000,000, with an effective date of January 1, 2005. The properties included one producing property and some exploration lands. The Company wrote off $588,256 in respect of the cost of the land and development costs incurred in drilling an exploratory well. The well although capable of production does not contain sufficient reserves to warrant tie-in. No proved or probable reserves were assigned to the well in the preparation of the third party engineering report.

6. ASSET RETIREMENT OBLIGATIONS

At December 31, 2005, the estimated total undiscounted amount required to settle the asset retirement obligations was $42,796. Costs for asset retirement have been calculated assuming a 2.5 percent inflation rate for 2006 to 2010 and 1.5 percent ther after. These obligations will be settled based on the useful lives of the underlying assets, which extend up to 8 years into the future. This amount has been discounted using a credit-adjusted risk-free interest rate of 5 percent. Changes to asset retirement obligations were as follows:

	2005
Asset retirement obligations, December 31, 2004	$ –
Obligations associated with acquisition and development programs	29,138
Liabilities settled during the year	–
Accretion	375
Asset retirement obligations, December 31, 2005	$ 29,513

7. SHARE CAPITAL

Authorized

Unlimited number of Common Shares without nominal or par value.

Unlimited number of Class B Preferred Shares without nominal or par value which may be issued in one or more series.

Issued	Number	Amount
Common Shares Balance, December 31, 2004	10	$ 1
Issued pursuant to public offering	36,420,031	5,463,005
Share issue costs	–	(167,647)
Future tax benefit on share issue costs	–	57,069
Balance, December 31, 2005	36,420,041	$ 5,352,428

On April 7, 2005, the Company concluded its initial public offering of 36,420,031 Common Shares at $0.15 per share for gross proceeds of $5,463,005. The Company granted 930,000 stock options to its directors and officers, and an additional 802,000 stock options to other service providers at an exercise price of $0.15 per share. The Company commenced trading on the TSX Venture Exchange on April 11, 2005.

The company may grant options for up to 3,605,583 common shares. The exercise price of each option granted equals the market price of the common share on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of December 31, 2005 and December 31, 2004, and changes during the twelve months and from incorporation periods ending on those dates is presented below:

	December 31, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	–	$0.00	–	$0.00
Options granted	1,752,000	0.16	–	0.00
Options cancelled	(66,000)	0.15	–	0.00
Outstanding at end of period	1,686,000	$0.16	–	$0.00
Options exercisable at end of period	–	$0.00	–	$0.00

Of the 1,686,000 options that are outstanding as of December 31, 2005, 1,666,000 are exercisable 50 percent on April 5, 2006 and the remaining 50 percent on April 5, 2007. The options all expire on January 31, 2010.

The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. On April 5, 2005, the Company issued 1,732,000 stock options with the fair value of $136,536 ($0.09 per option) estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.5 percent, expected volatility of 88 percent, expected life of 3.5 years and no annual dividend rate.

8. COMMITMENTS

Commencing February 1, 2005, the Company entered into a management agreement with Comstate (see Note 2). The management agreement consists of a monthly fee of $12,000 per month plus out of pocket costs, a fee of three percent of net earnings before income taxes, $250 per month per operated producing well and $150 per month per water injector well. Effective January 1, 2006, the monthly fee increases to $18,000 per month.

9. FINANCIAL INSTRUMENTS

Fair Values

The Company's financial instruments included in the balance sheet are comprised of cash, due from related party, accounts receivable and current liabilities. The fair values of these financial instruments approximate their carrying value due to the short-term maturity of those instruments.

Credit Risk

Substantially all of the Company's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of associated credit risks.

Commodity Price Risk

The Company's operations and financial results may be affected by fluctuations in commodity prices and exchange rates.

10. SUBSEQUENT EVENT

The Company has incorporated a subsidiary company, CanAmericas Energy Ltd. ("CanAmericas") to explore and develop oil and gas properties primarily in South America. CanAmericas will be owned 93 percent by the Company and seven percent by a foreign private corporation ("Foreign Corp."). CanAmericas was initially financed in late February with $1,400,000 U.S. (for 5,600,000 common shares) from the Company and $100,000 U.S. (for 400,000 common shares) from Foreign Corp.

Foreign Corp. has been granted an option to acquire an additional 1,000,000 common shares of CanAmericas at $0.25 U.S. per common share. This option vests at a rate of 50 percent per year over a two year period.

Board of Directors

G.J. Drummond, Nassau, Bahamas

G.F. Fink, Calgary, Alberta

C.R. Jonsson, Vancouver, British Columbia

F. W. Woodward, Calgary, Alberta

Officers

G.F. Fink – President and Chief Executive Officer

R.M. Jarock – Chief Operating Officer

G.E. Schultz – Vice President Finance, Chief Financial Officer, and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden, Ladner Gervais LLP, Calgary, Alberta

Tupper, Jonsson & Yeadon, Vancouver, British Columbia

Bankers

The Royal Bank of Canada, Calgary, Alberta

Stock Listing

The TSX Venture Exchange, Toronto, Ontario

Trading symbol: **PNE**

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Pine Cliff Energy Ltd.

901, 1015 – 4TH STREET SW

CALGARY, ALBERTA T2R 1J4

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PINE CLIFF ENERGY LTD.

901, 1015 Fourth Street S.W.
Calgary, Alberta
T2R 1J4

NOTICE OF ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF PINE CLIFF ENERGY LTD.

TAKE NOTICE that the Annual General Meeting (the "Meeting") of the Shareholders of **PINE CLIFF ENERGY LTD.** (hereinafter called the "Corporation") will be held at The Westin Hotel (Nakiska Room, Main Lobby Level) 320 Fourth Avenue S.W., Calgary, Alberta, on Wednesday, May 24, 2006, at the hour of 9:00 a.m. (Calgary time) for the purposes of:

1. Receiving and considering the Report of the Board of Directors, the audited financial statements of the Corporation for the fiscal year ended December 31, 2005 and the Report of the Auditor thereon;

2. Electing the Board of Directors for the ensuing year;

3. Appointing Auditors for the ensuing year and to authorize the Board of Directors to fix their remuneration; and

4. Transacting such other business as may properly come before the Meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the Information Circular dated April 3, 2006, accompanying this Notice and forming part hereof.

Shareholders who are unable to attend the Meeting in person are requested to date and sign the enclosed proxy and return it, in the envelope provided, to Pine Cliff Energy Ltd., Suite 901, 1015 Fourth Street S.W., Calgary, Alberta T2R 1J4. In order to be valid and acted upon at the Meeting, forms of proxy must be returned to the aforesaid address not less than 48 hours, excluding Saturdays, Sundays and statutory holidays, preceding the date of the Meeting, or any adjournment thereof.

DATED at Calgary, Alberta, this 3rd day of April, 2006.

BY ORDER OF THE BOARD OF DIRECTORS

George F. Fink, President and Chief Executive Officer

PINE CLIFF ENERGY LTD.

INFORMATION CIRCULAR

ANNUAL GENERAL MEETING OF SHAREHOLDERS
MAY 24, 2006

SOLICITATION OF PROXIES BY MANAGEMENT

This Information Circular is furnished in connection with the solicitation of proxies by the management of Pine Cliff Energy Ltd. (the "Corporation") for use at the annual general meeting of the holders of common shares ("Common Shares") of the Corporation to be held on Wednesday, May 24, 2006, at 9:00 a.m., Calgary time (the "Meeting") or at any adjournment thereof, for the purposes set forth in the Notice of Meeting accompanying this Information Circular.

There is enclosed herewith a form of proxy for use at the Meeting. A copy of the Annual Report, which includes the audited financial statements of the Corporation for the fiscal year ended December 31, 2005, has previously been disseminated to the shareholders. The holders of Common Shares of the Corporation are entitled to vote and are encouraged to participate in the Meeting.

This solicitation is made on behalf of the management of the Corporation. The costs incurred in the preparation and mailing of both the proxy and this Information Circular will be borne by the Corporation. Management does not contemplate a solicitation of proxies otherwise than by mail. The costs thereof will be borne by the Corporation.

In accordance with National Instrument 54-101 - *Communications with Beneficial Owners of Securities of a Reporting Issuer*, arrangements have been made with brokerage houses and other intermediaries, clearing agencies, custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of the Common Shares held of record by such persons and the Corporation may reimburse such persons for reasonable fees and disbursements incurred by them in doing so. The costs thereof will be borne by the Corporation.

APPOINTMENT AND REVOCATION OF PROXIES

A shareholder has the right to appoint a nominee, other than the persons designated in the enclosed form of proxy (who need not be a shareholder), to represent him at the Meeting, by inserting the name of his chosen nominee in the space provided for that purpose on the form of proxy or by completing another proper form of proxy. Such a shareholder should notify the nominee of his appointment, obtain his consent to act as proxy and instruct him on how the shareholder's shares are to be voted. In any case, the form of proxy should be dated and executed by the shareholder or his attorney authorized in writing.

A form of proxy will not be valid for the Meeting or any adjournment thereof unless it is completed and received by the Corporation at Suite 901, 1015 Fourth Street S.W., Calgary, Alberta T2R 1J4, not less than 48 hours, excluding Saturdays, Sundays and statutory holidays, preceding the date of the Meeting, or adjournment thereof.

In addition to revocation by any other manner permitted by law, a shareholder who has given a proxy may revoke it, at any time before it is exercised, by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an

officer or attorney thereof duly authorized and deposited at the registered office of the Corporation at 901, 1015 Fourth Street S.W., Calgary, Alberta T2R 1J4, Attention: Corporate Secretary, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the date of the Meeting or any adjournment thereof.

NOTICE TO BENEFICIAL HOLDERS OF SHARES

Only registered shareholders of Common Shares or the persons they validly appoint as their proxies are permitted to vote at the Meeting. However, in many cases, Common Shares beneficially owned by a person (a "Non-Registered Shareholder") are registered either (i) in the name of an intermediary (an "Intermediary") (including banks, trust companies, securities dealers or brokers and trustees or administrators of self administered RRSPs, RRIFs, RESPs and similar plans) that the Non-Registered Shareholder deals with in respect of the Common Shares, or (ii) in the name of a clearing agency (such as the Canadian Depository for Securities Limited), of which the Intermediary is a participant. In accordance with the requirements of the Canadian Securities Administrators, the Corporation will distribute copies of the Notice of Meeting, this Information Circular, and the enclosed form of proxy (collectively, the "meeting materials") to the clearing agencies and Intermediaries for onward distribution to Non-Registered Shareholders of Common Shares.

Intermediaries are required to forward the meeting materials to Non-Registered Shareholders unless a Non-Registered Shareholder has waived its right to receive them. Intermediaries often use service companies to forward the meeting materials to the Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive meeting materials will either:

(a) be given a form of proxy which has already been signed by the Intermediary (typically by a facsimile stamp signature), which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Shareholder, but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Shareholder. In this case, the Non-Registered Shareholder who wishes to submit a proxy should properly complete the form of proxy and submit it to Pine Cliff Energy Ltd., by mail or delivery at Suite 901, 1015 Fourth Street S.W., Calgary, Alberta, T2R 1J4, or by Fax at (403) 265-7488 with respect to the Common Shares beneficially owned by such Non-Registered Shareholder, in accordance with the instructions elsewhere in this Circular; **OR**

(b) more typically, brokers delegate responsibility to ADP Investor Communications ("ADP") for obtaining instructions from Non-Registered Shareholders. In order for the form of proxy to validly constitute a proxy authorization form, ADP normally prepares a machine-readable voting instruction form, mails the form to the Non-Registered Shareholders and asks the holders to return the forms to ADP directly, or otherwise communicate voting instructions to ADP (for example, by way of the Internet or telephone). Sometimes, instead of the machine-readable form, the proxy authorization form will consist of a regular printed proxy form accompanied by a page of instructions which contains a removable label containing a bar-code or other information. In order for the form of proxy to validly constitute a proxy authorization form, the Non-Registered Shareholder must remove the label from the instructions and affix it to the form of proxy, properly complete and sign the form of proxy and submit the vote to ADP in accordance with the instructions provided.

In either case, the purpose of this procedure is to permit the Non-Registered Shareholder to direct the voting of the Common Shares he or she beneficially owns.

If you are a Non-Registered Shareholder who receives either form of proxy and you wish to vote at the Meeting in person, you should strike out the persons' named in the proxy and insert your name in the blank space provided. In either case, Non-Registered Shareholders should carefully follow the instructions of the Intermediary or ADP, including those regarding when and where the proxy authorization form or machine-readable form is to be delivered.

VOTING OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Corporation and have indicated their willingness to represent as proxy the shareholders who appoint them. Each shareholder may instruct his proxy how to vote his shares by completing the blanks on the form of proxy.

Common Shares represented by properly executed proxy forms in favour of the persons designated on the enclosed proxy form will be voted for, against, or withheld from voting in accordance with the instructions made on the proxy forms, on any ballot that may be called for and, if shareholders specify a choice as to any matters to be acted upon, such shareholders' shares shall be voted accordingly. In the absence of such instructions or choices, such shares will be voted in favour of all matters identified in the Notice of Meeting accompanying this Information Circular.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments and variations to matters identified in the Notice of Meeting and with respect to any other matters which may properly come before the Meeting. The Common Shares represented by the proxy will be voted on such matters in accordance with the best judgment of the person voting such shares. At the time of printing of this Information Circular, management knows of no such amendments, variations or other matters to come before the Meeting.

VOTING SHARES AND PRINCIPAL HOLDERS OF SHARES

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value, and, as of April 3, 2006, 36,420,041 Common Shares were issued and outstanding. On all matters to be considered and acted upon at the Meeting, holders of Common Shares are entitled to one vote for each Common Share held.

The Board of Directors has fixed April 19, 2006, as the record date (the "Record Date") for determining which shareholders are entitled to receive notice of the Meeting. A shareholder of record at the close of business on April 19, 2006, shall be entitled to vote the Common Share registered in such shareholder's name on that date, except to the extent that (a) such person transfers his Common Shares after the Record Date; and (b) the transferee of those Common Shares produces properly endorsed share certificates or otherwise establishes his ownership to the Common Shares, and makes a demand to the registrar and transfer agent of the Corporation, not later than 10 days before the Meeting, that his name be included on the shareholders' list.

To the knowledge of the directors and officers of the Corporation, as at April 3, 2006, no person, firm or corporation beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying more than 10% of the voting rights of the Corporation except as set out in the table below:

Name and Municipality of Residence	Number of Common Shares[(1)]	Percent
George F. Fink	6,716,078	18.4%

Note:

(1) The information as to Common Shares beneficially owned or over which a Shareholder exercises control or direction, not being within the knowledge of the Corporation, has been derived from public filings.

QUORUM FOR MEETING

At the Meeting, a quorum shall consist of two or more persons either present in person or represented by proxy and representing in the aggregate not less than 5% of the outstanding Common Shares. Generally, if a quorum is not present at a meeting within one half hour after the time fixed for the holding of the meeting, it shall stand adjourned to the same day of the following week. At such meeting, provided there are at least two the Shareholders present, such Shareholders shall form a quorum.

APPROVAL REQUIREMENTS

All of the matters to be considered at the Meeting require approval by more than 50% of the votes cast in respect of the resolution by or on behalf of Shareholders present in person or represented by proxy at the Meeting.

MATTERS TO BE ACTED UPON AT THE MEETING

To the best of the knowledge of the Corporation's directors, the only matters to be placed before the Meeting are those set forth in the accompanying Notice of Meeting relating to the receipt of the financial statements and auditor's report thereon, the election of directors and the appointment of auditors.

1. Election of Directors

The Board of Directors is elected annually and consists of such number as may be fixed from time to time by the directors, being not less than one and not more than fifteen directors. The Board of Directors currently consists of four members. It is proposed that four persons be elected as directors of the Corporation at the Meeting, to serve until the next annual meeting of shareholders or until his successor is duly elected or appointed pursuant to the by-laws of the Corporation unless his office is earlier vacated in accordance with the provisions of the *Business Corporations Act* (Alberta) or the Corporation's by-laws. The persons designated in the enclosed form of proxy, unless instructed otherwise intend to vote for the election of the following nominees. Management does not contemplate that any of the nominees will be unable to serve as a director, but, if that should occur for any reason prior to the Meeting, the persons designated in the enclosed form of proxy reserve the right to vote for other nominees in their discretion.

The names and municipalities of residence of the four persons nominated for selection as directors of the Corporation by shareholders, the number of Common Shares of the Corporation beneficially owned, directly or indirectly, or over which each exercises control or direction, the offices held by each in the Corporation, the period served as director of the Corporation and the present principal occupation of each are as follows:

Name and Municipality of Residence	Number Of Common Shares Beneficially Owned Or Controlled [(1)]	Offices Held And Time As Director	Principal Occupation
GARY J. DRUMMOND [(2) (3)] Nassau, Bahamas	1,518,000	Director since 2004.	Mr. Drummond is currently a private investor and a director of several entities including Comstate Resources Ltd., Bonterra Energy Corp., Novitas Energy Ltd., CanAmericas Energy Ltd., CanAmericas (Argentina) Energy Ltd. (resource companies), Comaplex Minerals Corp. (mineral exploration and development company), and Crew Energy Ltd. (a resource company). Mr. Drummond is a Trustee of Heating Oil Partners Income Fund.
GEORGE F. FINK Calgary, Alberta	6,716,078	Director since 2004. President and Chief Executive Officer of Comstate, Bonterra Energy Corp., Novitas Energy Ltd., Comaplex Minerals Corp. and Pine Cliff Energy Ltd., and Chief Executive Officer of CanAmericas Energy Ltd. and CanAmericas (Argentina) Energy Ltd., all of which are natural resource exploration and development companies.	Chartered Accountant. President, Chief Executive Officer, and Director of each of Comstate Resources Ltd., Bonterra Energy Corp., Comaplex Minerals Corp. and Novitas Energy Ltd. as well as Chief Executive Officer and Director of CanAmericas Energy Ltd. and CanAmericas (Argentina) Energy Ltd., all of which are natural resource exploration and development companies. Mr. Fink is a Trustee of First National AlarmCap Income Fund.
CARL R. JONSSON [(2)(3)] Vancouver, B.C.	497,340	Director since 2004.	Principal with the Vancouver law firm of Tupper, Jonsson & Yeadon. Mr. Jonsson is also a director of Comstate Resources Ltd., Bonterra Energy Corp., Novitas Energy Ltd., Comaplex Minerals Corp., CanAmericas Energy Ltd. and CanAmericas (Argentina) Energy Ltd.
F. WILLIAM WOODWARD [(2)(3)] Calgary, Alberta	3,069,600	Director since 2004.	Mr. Woodward is currently a private investor and a director of several entities including Comstate Resources Ltd., Bonterra Energy Corp., Novitas Energy Ltd., Pine Cliff Energy Ltd., Comaplex Minerals Corp., CanAmericas Energy Ltd. and CanAmericas (Argentina) Energy Ltd.

Notes:

(1) The information as to the number of Common Shares beneficially owned or controlled by directors, not being within the knowledge of the Corporation, has been furnished to the Corporation by the individual nominees.

(2) Member of the Audit Committee.

(3) Member of the Policy, Governance and Nominating Committee.

(4) All of the directors are members of the Compensation Committee and Reserves Committee.

The directors and executive officers of the Corporation as a group beneficially own, directly or indirectly, 13,668,018 Common Shares, representing approximately 37.5% of the outstanding Common Shares of the Corporation.

Mr. Jonsson was a director and, in two instances, secretary, of three companies, Global CT & T Telecommunications Ltd., Global Net Entertainment Corporation and TelcoPlus Enterprises Inc., which have been cease-traded for more than 30 days as a result of the non-filing of audited financial statements on a timely basis. The cease trade orders in respect of the first two companies remain outstanding.

Mr. Drummond is a Trustee with Heating Oil Partners Income Fund which was permanently cease-traded and delisted from the Toronto Stock Exchange due to insolvency of its underlying operating company.

2. Appointment of Auditors

At the Meeting, it is the intention of the persons named in the enclosed form of proxy to vote in favour of a resolution to appoint the firm of Deloitte & Touche LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of the Corporation until the next annual general meeting of shareholders and to authorize the Board of Directors to fix the remuneration of the auditors. Deloitte & Touche LLP have been auditors of the Corporation since incorporation.

INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED UPON

The Corporation is not aware of any material interest of any director, executive officer, nominee for election as a director or executive officer of the Corporation or of any associate or affiliate of any of the foregoing in respect of any matter to be acted on at the Meeting, except as specifically provided herein.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There are no material interests, direct or indirect, of any "informed person" (as defined in NI 51-102) of the Corporation, any proposed nominee for election as a director of the Corporation or any associate or affiliate of any such person or proposed nominee in any transaction since the incorporation of the Corporation, or in any proposed transaction, that has materially affected or would materially affect the Corporation.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No directors or senior officers of the Corporation, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any one of them, is or was indebted to the Corporation or any of its subsidiaries at any time since the beginning of the financial year ended December 31, 2005.

MANAGEMENT CONTRACTS

Management functions of the Corporation are substantially performed by Comstate Resources Ltd., ("Comstate"), a wholly-owned subsidiary of Bonterra Energy Income Trust, a company with common directors and management, in consideration for a fee for services rendered pursuant to the terms of a Management Agreement dated February 1, 2005 between Comstate and the Corporation. In addition,

Comstate provides accounting, oil and gas property services, and certain facilities to the Corporation pursuant to the terms of the said Management Agreement. For these services, the Corporation paid Comstate fees of $132,000 in 2005.

STATEMENT OF EXECUTIVE COMPENSATION

For the year ended December 31, 2005, the Corporation had three Named Executive Officers (as that term is defined in NI 51-102). The Corporation does not pay any annual compensation nor grant any long-term compensation awards to its President and Chief Executive Officer, Chief Operating Officer, or Vice President, Finance and Chief Financial Officer, other than bonuses and stock options. Their salaries and benefits are paid by Comstate, a wholly owned subsidiary of Bonterra Energy Income Trust. Comstate provides management, accounting, oil and gas property services, and certain facilities to the Corporation. For these services, the Corporation paid Comstate fees of $132,000 in 2005.

The following table sets forth information concerning the total compensation paid by the Corporation to the Named Executive Officers for the periods indicated:

Summary Compensation Table

	Annual Compensation				Long Term Compensation	All Other Compensation
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($)(1)**	**Securities Under Options Granted**	
George F. Fink President and Chief Executive Officer	2005	Nil	Nil	Nil	180,000	Nil
Garth E. Schultz Vice-President, Finance, Chief Financial Officer and Secretary	2005	Nil	Nil	Nil	180,000	Nil
Randy M. Jarock Chief Operating Officer	2005	Nil	Nil	Nil	180,000	Nil

Notes:

(1) The value of perquisites and benefits for each Named Executive Officer is less than the lesser of $50,000 and 10% of the total of the annual salary and bonus of the Named Executive Officer for the financial year.
(2) The Corporation does not have employment contracts or termination agreements with any of its Executive Officers.
(3) The Corporation became a reporting issuer in March 2005.

Stock Option Plan

Effective November 10, 2004, the Corporation implemented a Common Share option plan (the "Option Plan"). Under the Option Plan, options to purchase a maximum of 3,605,583 Common Shares (currently representing 9.9% of the outstanding Common Shares) may be granted to employees, officers, directors and consultants to the Corporation (which number may be decreased at any time and may be increased from time to time, subject to regulatory approval and the approval of the shareholders). The Option Plan is administered by the Corporation. Subject to regulatory approval, the exercise price of an option is determined at the time of grant and is to be not less than the closing price of the Common Share on the TSX Venture Exchange (the "TSXV") on the last day preceding the grant on which a trade of Common Shares occurred on the TSXV. The term of an option and vesting provisions are to be determined at the

time of grant and may vary as between individual grants of options. However, the term of an option shall not be more than 5 years from the date of grant. Options are generally exercisable only during the term of employment or service of an employee, consultant or officer or during the period of service as a director, or in certain circumstances, for a finite period of time following specified events such as retirement.

The number of Common Shares reserved for issuance to certain persons is restricted. For example, the number of Common Shares reserved for issuance to insiders cannot exceed 10%, and for one person cannot exceed 5%, of the total number of Common Shares then outstanding. Options are not assignable or transferable.

At the date of this circular, 1,686,000 options to acquire Common Shares were outstanding representing 4.6% of the 36,420,041 Common Shares outstanding. The options were issued at the closing price of the Common Shares on the TSXV on the last day preceding the grant of the options.

Options Granted During the Most Recently Completed Financial Year

Options to purchase Common Shares granted to Named Executive Officers during the financial year ended December 31, 2005 are as follows:

Name	Securities under Options/SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Financial Year	Exercise or Base Price per Security ($/Security)	Market value of securities underlying Options/SARs on the Date of Grant ($/Security)	Expiration Date
George F. Fink	180,000	10.7%	0.15	0.15	January 31, 2010
Garth E. Schultz	180,000	10.7%	0.15	0.15	January 31, 2010
Randy M. Jarock	180,000	10.7%	0.15	0.15	January 31, 2010

Options Exercised During the Most Recently Completed Financial Year and Financial Year End Option Values

The following table shows the aggregate number of options exercised by the Named Executive Officers during the most recently completed financial year, the value realized upon exercise of the options, the number of unexercised options held at year-end and the value of the unexercised options for options held by the Named Executive Officers:

Name	Securities, Acquired on Exercise (#)	Aggregated Value Realized ($)	Unexercised Options at Year-End (#) Exercisable/ Unexercisable	Value of Unexercised in-the-Money Options at Year-End(1) ($) Exercisable/ Unexercisable
George F. Fink	Nil	Nil	Nil/ 180,000	Nil/ 72,000
Garth E. Schultz	Nil	Nil	Nil/ 180,000	Nil/ 72,000
Randy M. Jarock	Nil	Nil	Nil/ 180,000	Nil/ 72,000

Notes:

(1) The value of unexercised in-the-money stock options has been determined by subtracting the exercise price from the closing Common Share price of $0.55 on December 31, 2005, as quoted by the TSXV.

(2) The options vest as to one-third on each of the first, second and third anniversary dates from the date of grant.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2005, equity securities are authorized for issuance as follows:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders - Stock Option Plan	1,686,000	0.16	1,853,583[1]
Equity compensation plans not approved by security holders	Nil	Nil	Nil
Total	1,686,000	0.16	1,853,583

Note:

(1) The Stock Option Plan has reserved a maximum of 3,605,583 common shares for issuance pursuant to stock options.

Termination of Employment, Change in Responsibilities and Employment Contracts

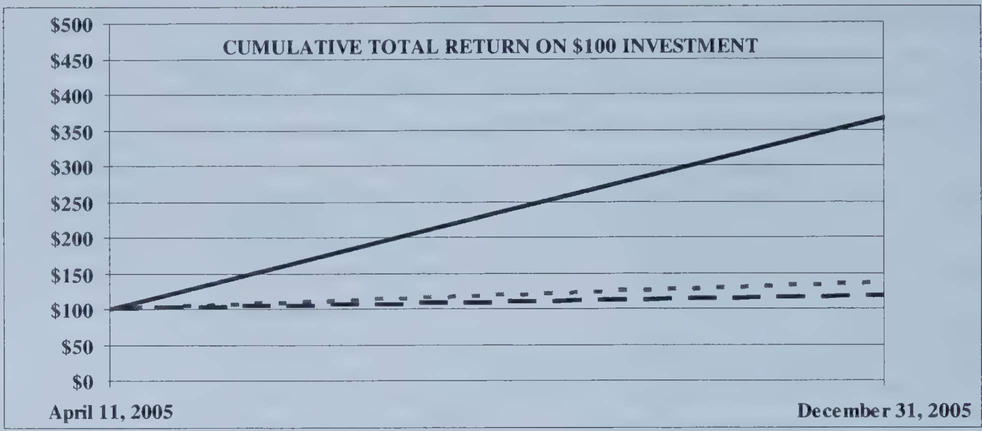
The Corporation has no written employment contract, plan or arrangement providing for payment to any executive officer on resignation, retirement or termination or in the event of a change of control of the Corporation.

Compensation of Directors

The directors who are not officers of the Corporation receive an annual retainer of $2,000 ($3,000 for fiscal 2006) plus $800 for every meeting attended. The directors are reimbursed for their expenses to attend each board meeting and committee meeting. The members of the committees receive $400 per meeting attended. Executive officers who are also directors are not paid any director fees.

Performance Graph

The following graph illustrates changes over the past year in the value of $100 invested in: (1) Common Shares of the Corporation; (2) the S&P/TSX Composite Index; and (3) the TSX Energy Index from April 11, 2005 to December 31, 2005.



		April 11, 2005	December 31, 2005
PINE CLIFF ENERGY LTD	———	$100	$366
TSX 300 COMPOSITE INDEX	— — — —	$100	$117
TSX ENERGY INDEX	- - - -	$100	$136

DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES

Under National Instrument 58-101 *Disclosure of Corporate Governance Practices*, the Corporation is required to include in this Management Information Circular the disclosure required under Form 58-101F1 with respect to the matters set out under National Policy 58-201 *Corporate Governance Guidelines*.

Board of Directors

The Corporation's Board of Directors, which is responsible for supervising the management of the business and affairs of the Corporation, is comprised of four directors, of which three are independent. The independent directors are Gary J. Drummond, Carl R. Jonsson and F. William Woodward. The President and Chief Executive Officer of the Corporation, George F. Fink is not independent by virtue of being a member of the Corporation's management. The Board of Directors facilitates its exercise of independent supervision over management by holding Board of Directors meetings without management present. All of the Corporation's directors serve as directors of other reporting issuers as indicated in the table below.

Director	Directorships Held
Gary J. Drummond	Comstate Resources Ltd., the Administrator of Bonterra Energy Income Trust Comaplex Minerals Corp. Crew Energy Ltd. Trustee of Heating Oil Partners Income Fund
George F. Fink	Comstate Resources Ltd., the Administrator of Bonterra Energy Income Trust Comaplex Minerals Corp. Trustee of First National AlarmCap Income Fund

Director	Directorships Held
Carl R. Jonsson	Comstate Resources Ltd., the Administrator of Bonterra Energy Income Trust Comaplex Minerals Corp.
F. William Woodward	Comstate Resources Ltd., the Administrator of Bonterra Energy Income Trust Comaplex Minerals Corp.

Orientation

The Corporation has developed an orientation program for new directors which provides each new director with all applicable information regarding the roles and responsibilities of the Board of Directors and each Committee of the Board of Directors, as well as information regarding the nature and operation of the Corporation's business, its organizational structure and governance policies.

Education

The Corporation arranges for presentations to be made to the Board of Directors and each Committee of the Board of Directors to inform directors regarding corporate developments and changes in legal, regulatory and industry requirements affecting the Corporation. As well, directors are encouraged to visit the Corporation's facilities, to interact with management and employees and to stay abreast of industry developments and the evolving business of the Corporation

Nomination

Responsibility for identifying candidates to join the Board of Directors belongs to Policy, Governance and Nominating Committee. The criteria that Committee members are asked to consider in identifying candidates includes the independence of the individual, his or her financial acumen and skills, and availability to devote sufficient time to the duties of the Committee. Committee members who have identified new candidates present information regarding the candidate at the next meeting of the Committee, the Committee makes an assessment of the candidate, determining whether the candidate meets the criteria established by the Committee, and then makes a decision whether to interview the candidate. If the Committee members who interviewed the candidate are in favour of having the candidate stand for election, the Board takes a vote and if the candidate is approved, the candidate becomes a nominee for election by shareholders at the next shareholder meeting of the Corporation.

In addition, the Committee is empowered to recommend candidates to fill any vacancy in the Board of Directors that arises between annual meetings. Subject to the articles of the Corporation, the Committee also has the ability to recommend the appointment of additional directors between annual meetings.

Compensation

Responsibility for determining the compensation of the directors and CEO belongs to the Compensation Committee which is currently comprised of all of the directors. The criteria that Committee members are asked to consider in determining compensation includes the objectives and goals set by the Corporation for the directors and CEO as against their performance, shareholder returns and other achievements of the Corporation. The Committee may engage the services of a compensation advisor to advise the Corporation regarding the form and amount of compensation awarded by corporations similar in size and industry to the Corporation, including competitors. The Committee also considers publicly available information regarding compensation of other listed issuers and will accept for review proposals from the CEO with respect to CEO, executive officer and management compensation. The Committee holds an annual meeting to discuss compensation, review any proposals of the CEO or management (without the CEO being present in the case of the CEO's compensation), and then votes on the proposed compensation.

Assessment

The Board of Directors takes steps to satisfy itself that the Board of Directors, its Committees and individual directors are performing effectively by conducting an annual informal evaluation and assessment of the performance, contribution and effectiveness of the Board of Directors, Committees and individual directors.

Board Committees

The Board of Directors has established an Audit Committee, a Policy, Governance and Nominating Committee, a Compensation Committee and a Reserves Committee. The function of the Policy, Governance and Nominating Committee is to recommend governance policies for adoption by the Corporation, and to amend, administer and monitor compliance with the Corporation's governance policies. The function of the Reserves Committee is to recommend the engagement of a reserves evaluator, ensure the reserves evaluator's independence, review the procedures for disclosure of reserves evaluation, meet independently with the reserves evaluator to review the scope of the annual review of reserves, discuss findings and disagreements with management, annually assess the work of the reserves evaluator and approve the Corporation's annual reserve report and consent forms of management and the reserves evaluator thereto. The function of the Compensation Committee is to determine the appropriate compensation for the Chief Executive Officer, the Chief Operating Officer, and the Chief Financial Officer of the Corporation. The function of the Audit Committee is outlined below.

AUDIT COMMITTEE INFORMATION

The following information is provided in accordance with Form 52-110F2 under the Canadian Securities Administrators' Multilateral Instrument 52-110 - Audit Committees ("MI 52-110").

Audit Committee Charter

The Audit Committee Charter is attached as Schedule "A" to this Information Circular.

Composition of the Audit Committee

The Audit Committee is comprised of Gary J. Drummond, Carl R. Jonsson and F. William Woodward. Each director is considered "financially literate" and "independent" (as such terms are defined in MI 52-110).

Relevant Education and Experience

Each member of the Audit Committee is financially literate, i.e., has the ability to read and understand financial statements. Collectively, the Audit Committee has the education and experience to fulfill the responsibilities outlined in the Audit Committee Charter. The education, and current and past experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member is summarized below:

Name	Education and Experience
F. William Woodward (Chairman)	• Director of wholly-owned subsidiaries of publicly traded entities such as Comstate Resources Ltd., Administrator of Bonterra Energy Income Trust (a public energy trust), Bonterra Energy Corp., Novitas Energy Ltd. and the Corporation, and a member of the Audit Committee of each of those corporations. • Business graduate from Notre Dame College. • Former Director and member of the Audit Committee for Eldorado Nuclear Limited, IPSCO Inc., Cameco Corporation, SaskPower, Reed Shaw McNaught, and Agricore United.
Gary J. Drummond	• Lawyer, businessman and private investor. • Director of several public corporations, such as Comaplex Minerals Corp., Crew Energy Inc., and wholly-owned subsidiaries of publicly traded entities, such as Comstate Resources Ltd., Administrator to Bonterra Energy Income Trust (a public energy trust), Bonterra Energy Corp., Novitas Energy Ltd., and the Corporation, and a member of the Audit Committee of certain of those corporations. • Trustee of Heating Oil Partners Income Fund. • 35 years of extensive experience directly related to all aspects of reading and understanding financial statements and matters. • Former President and CEO of Direct Energy Marketing Limited (public resource company). • BA (Economics) and Law Degree.
Carl R. Jonsson	• Securities/corporate lawyer for 45 years, including extensive involvement in numerous business transactions. Principal of the Vancouver law firm of Tupper, Jonsson & Yeadon. • Currently director and officer of numerous public corporations, such as Acrex Ventures Ltd., Altima Resources Ltd., Caledonia Mining Corporation, Comaplex Minerals Corp., Comet Industries Ltd., Earthworks Industries Inc., Global Net Entertainment Corp., Dolly Varden Resources Inc. and the Corporation, and wholly-owned subsidiaries of publicly traded entities, such as Comstate Resources Ltd., Administrator to Bonterra Energy Income Trust (a public energy trust), Bonterra Energy Corp. and Novitas Energy Ltd., and a member of the Audit Committee of various of them. • Many years of extensive experience related to the supervision of the preparation of financial statements. • CFO of two public companies - Acrex Ventures Ltd. and Altima Resources Ltd.

Pre-Approval Policies and Procedures

The Audit Committee is authorized by the Board of Directors to review the performance of the Corporation's external auditors, and approve in advance provision of services other than auditing and to consider the independence of the external auditors, including reviewing the range of services provided in the context of all consulting services bought by the Corporation. The Audit Committee is authorized to approve any non-audit services or additional work which the Chairman of the Audit Committee deems as necessary who will notify the other members of the Audit Committee of such non-audit or additional work.

External Auditor Service Fees (By Category)

The fees for auditor services billed by the Corporation's external auditors in each of the last two fiscal years are as follows:

Financial Year Ending December 31	Audit Fees	Audit-related Fees	Tax Fees	All Other Fees
2004	$12,508	Nil	Nil	$26,500[1]
2005	$1,908	Nil	Nil	Nil

Note:

(1) Fees relate to the Corporation's Rights Offering.

Exemption

The disclosure under this section is being provided in reliance upon the exemption in Section 6.1 of MI 52-110.

ADDITIONAL INFORMATION

Copies of the Corporation's financial statements and management discussion and analysis ("MD&A") for the year ended December 31, 2005 are available on written request to the Corporation at Suite 901, 1015 Fourth Street S.W., Calgary, Alberta T2R 1J4, Attention: Chief Financial Officer.
The financial information is provided in the Corporation's comparative financial statements and MD&A for its most recently completed financial year.

Additional information relating to the Corporation is available on SEDAR at www.sedar.com.

SCHEDULE "A"

PINE CLIFF ENERGY LTD.

(the "Corporation")

AUDIT COMMITTEE CHARTER

Purpose of the Committee

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of the Corporation is to provide an open avenue of communication between management, the Corporation's independent auditors and the Board and to assist the Board in its over seeing of:

(a) the integrity, adequacy and timeliness of the Corporation's financial reporting and disclosure practices;

(b) the Corporation's compliance with legal and regulatory requirements related to financial reporting; and

(c) the independence and performance of the Corporation's independent auditors.

The Committee shall also perform any other activities consistent with this Charter, the Corporation's By-laws and governing laws as the Committee or Board deems necessary or appropriate.

The Committee shall consist of at least three directors. Members of the Committee shall be appointed by the Board and may be removed by the Board in its discretion. The members of the Committee shall elect a Chairman from among their number. Each director appointed to the Committee shall be an outside director who is unrelated. An outside, unrelated director is a director who is independent of management and is free of any interest, any business or other relationship which could, or could reasonably be perceived, to materially interfere with the director's ability to act with the view to the best interests of the Corporation, other than interests and relationships arising from shareholding. In determining whether a director is independent of management, the Board shall make reference to the current legislation, rules, policies and instruments of applicable regulatory authorities. None of the members of the Committee may be officers or employees of the Corporation or of an affiliate of the Corporation.

Each member of the Committee shall be "financially literate". In order to be financially literate, a director must be, at a minimum, able to read and understand basic financial statements.

A director appointed by the Board to the Committee shall be a member of the Committee until replaced by the Board or until his or her resignation.

The Committee's role is one of over seeing. Management is responsible for preparing the Corporation's financial statements and other financial information and for the fair presentation of the information set forth in the financial statements in accordance with generally accepted accounting principles ("GAAP"). Management is also responsible for establishing internal controls and procedures and for maintaining the appropriate accounting and financial reporting principles and policies designed to assure compliance with accounting standards and all applicable laws and regulations.

The Committee is responsible for recommending to the Board the independent auditors to be nominated for the purpose of auditing the Corporation's financial statements, preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, and for reviewing and recommending the compensation of the independent auditors. The Committee is also directly responsible for the evaluation of and oversight of the work of the independent auditors. The independent auditors shall report directly to the Committee.

Meetings of the Committee

The Committee shall convene a minimum of four times each year at such times and places as may be designated by the Chairman of the Committee and whenever a meeting is requested by the Board, a member of the Committee, the auditors, or an executive officer of the Corporation. Meetings of the Committee shall correspond with the review of the quarterly financial statements and Management's discussion and analysis.

Notice of each meeting of the Committee shall be given to each member of the Committee and to the auditors, who shall be entitled to attend each meeting of the Committee and shall attend whenever requested to do so by a member of the Committee.

The quorum for a meeting of the Committee is a majority of the members. With the exception of the foregoing quorum requirement, the Committee may determine its own procedures.

A member or members of the Committee may participate in a meeting of the Committee by means of such telephonic, electronic or other communication facilities, as permits all persons participating in the meeting to communicate adequately with each other. A member participating in such a meeting by any such means is deemed to be present at the meeting.

In the absence of the Chairman of the Committee, the members of the Committee shall choose one of the members present to be Chairman of the meeting. In addition, members of the Committee shall choose one of the persons present to be the Secretary of the meeting.

The following Management representatives shall be invited to attend all meetings, except private Committee sessions and private sessions with the independent auditors:

(i) President and Chief Executive Officer;

(ii) Vice President, Finance and Chief Financial Officer.

The Chairman of the Board, executive management of the Corporation and other parties may attend meetings of the Committee; however the Committee (i) shall meet with the external auditors independent of management; and (ii) may meet separately with management.

Minutes shall be kept of all meetings of the Committee.

Authority and Responsibilities

In addition to the foregoing, in performing its over seeing responsibilities the Committee shall:

1. Monitor the adequacy of this Charter and recommend any proposed changes to the Board on an annual basis.
2. Review the appointments of the Corporation's Chief Financial Officer and any other key financial executives involved in the financial reporting process.

3. Identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation.

4. Review with management and the independent auditors the adequacy and effectiveness of the Corporation's accounting and financial controls and the adequacy and timeliness of its financial reporting processes.

5. Review with management and the independent auditors the annual financial statements and related documents and review with management the unaudited quarterly financial statements and related documents, prior to filing or distribution, including matters required to be reviewed under applicable legal or regulatory requirements.

6. Where appropriate and prior to release, review with management any news releases that disclose annual or interim financial results or contain other significant financial information that has not previously been released to the public.

7. Review the Corporation's financial reporting and accounting standards and principles and significant changes in such standards or principles or in their application, including key accounting decisions affecting the financial statements, alternatives thereto and the rationale for decisions made.

8. Review the quality and appropriateness of the accounting policies and the clarity of financial information and disclosure practices adopted by the Corporation, including consideration of the independent auditors' judgment about the quality and appropriateness of the Corporation's accounting policies. This review may include discussions with the independent auditors without the presence of management.

9. Review with management and the independent auditors significant related party transactions and potential conflicts of interest.

10. Pre-approve all non-audit services to be provided to the Corporation by the independent auditors and applicable fees.

11. Inspect any and all of the books and records of the Corporation, its subsidiaries and affiliates.

12. Discuss with the management of the Corporation, its subsidiaries and affiliates and staff of the Corporation, any affected party, contractors and consultants of the Corporation and the external auditors, such accounts, records and other matters as any member of the Committee considers necessary and appropriate.

13. At the earliest opportunity after each meeting, report to the Board the results of its activities and any reviews undertaken and make recommendations to the Board as deemed appropriate.

14. When there is to be a change of external auditors, review all issues and provide documentation related to the change, including the information to be included in the Notice of Change of Auditors and documentation required pursuant to National Instrument 51-102 (or any successor legislation) of the Canadian Securities Administrators and the planned steps for an orderly transition.

15. Review all securities offering documents (including documents incorporated therein by reference) of the Corporation.

16. Review findings, if any, from examinations performed by regulatory agencies with respect to financial matters.

17. Review management's procedure for monitoring the Corporation's compliance with laws and regulations.

18. Review current and expected future compliance with covenants under financing agreements.

19. Review the proposed issuance of debt and equity instruments including public and private debt, equity and hybrid securities, credit facilities with banks and others, and other credit arrangements such as material capital and operating leases. When applicable, the Committee shall review the related securities filings.

20. Monitor the independence of the independent auditors by reviewing all relationships between the independent auditors and the Corporation and all non-audit work performed for the Corporation by the independent auditors.

21. Establish and review the Corporation's procedures for the:

    (a) receipt, retention and treatment of complaints regarding accounting, financial disclosure, internal controls or auditing matters; and

    (b) confidential, anonymous submission by employees regarding questionable accounting, auditing and financial reporting and disclosure matters.

22. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.

23. Conduct or authorize investigations into any matters that the Committee believes is within the scope of its responsibilities. The Committee has the authority to retain independent counsel, accountants or other advisors to assist it, as it considers necessary, to carry out its duties, and to set and pay the compensation of such advisors at the expense of the Corporation. If these costs exceed $10,000 per annum for a Committee member, such member will obtain prior approval from the Board for the amount exceeding $10,000 per annum.

24. Perform such other functions and exercise such other powers as are prescribed from time to time for the audit committee of a reporting company in Parts 2 and 4 of Multilateral Instrument 52-110 of the Canadian Securities Administrators, all other applicable laws and policies and procedures of all applicable regulatory authorities, the *Business Corporations Act* (Alberta) and the By-laws of the Corporation.